

SCHWARTZER & MCPHERSON LAW FIRM
 2850 South Jones Boulevard, Suite 1
 Las Vegas, Nevada 89146-5308
 Tel: (702) 228-7590 • Fax: (702) 892-0122

1 Annette W. Jarvis, Utah Bar No. 1649
 2 Steven C. Strong, Utah Bar No. 6340
 3 RAY QUINNEY & NEBEKER P.C.
 4 36 South State Street, Suite 1400
 5 P.O. Box 45385
 6 Salt Lake City, Utah 84145-0385
 Telephone: (801) 532-1500
 Facsimile: (801) 532-7543
 Email: ajarvis@rqn.com

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7 Lenard E. Schwartzer, Nevada Bar No. 0399
 8 Jeanette E. McPherson, Nevada Bar No. 5423
 SCHWARTZER & MCPHERSON LAW FIRM
 9 2850 South Jones Boulevard, Suite 1
 Las Vegas, Nevada 89146-5308
 Telephone: (702) 228-7590
 Facsimile: (702) 892-0122
 E-Mail: bkfilings@s-mlaw.com

12 Attorneys for Debtors

13 **UNITED STATES BANKRUPTCY COURT**
 14 **DISTRICT OF NEVADA**

15 In re: USA COMMERCIAL MORTGAGE COMPANY, Debtor.	16 Case No. BK-S-06-10725 LBR Case No. BK-S-06-10726 LBR Case No. BK-S-06-10727 LBR Case No. BK-S-06-10728 LBR Case No. BK-S-06-10729 LBR Chapter 11 Jointly Administered Under Case No. BK-S-06-10725 LBR
17 In re: USA CAPITAL REALTY ADVISORS, LLC, Debtor.	
18 In re: USA CAPITAL DIVERSIFIED TRUST DEED FUND, LLC, Debtor.	
19 In re: USA CAPITAL FIRST TRUST DEED FUND, LLC, Debtor.	
20 In re: USA SECURITIES, LLC, Debtor.	
21 Affects: <input type="checkbox"/> All Debtors <input checked="" type="checkbox"/> USA Commercial Mortgage Company <input type="checkbox"/> USA Securities, LLC <input type="checkbox"/> USA Capital Realty Advisors, LLC <input type="checkbox"/> USA Capital Diversified Trust Deed Fund, LLC <input type="checkbox"/> USA Capital First Trust Deed Fund, LLC	22 USA COMMERCIAL MORTGAGE COMPANY'S SECOND REPORT OF ACTION TAKEN AND PROGRESS TOWARD CONSUMMATION OF CONFIRMED PLAN OF REORGANIZATION (Affects USA Commercial Mortgage Company)

1 USA Commercial Mortgage Company (“USACM”), by and through its counsel, hereby
 2 submits this Second Report of Action Taken and Progress Toward Consummation of Confirmed
 3 Plan of Reorganization (“Second Report”).¹ This Second Report is submitted pursuant to Article
 4 VIII, Section T of the Debtors’ Third Amended Joint Chapter 11 Plan of Reorganization (the
 5 “Plan”),² Paragraph 74 of the Court’s “Order Confirming the Debtors’ ‘Third Amended Joint
 6 Chapter 11 Plan of Reorganization,’ as Modified Herein” (Docket No. 2376) (the “Confirmation
 7 Order”), and the Court’s Order dated April 30, 2007 (Docket No. 3627). The confirmed Plan
 8 became effective on March 12, 2007 (the “Effective Date”). USACM filed its First Report of
 9 Action Taken and Progress Towards Consummation of Confirmed Plan of Reorganization (“First
 10 Report”) on July 16, 2007, covering the period of March 13, 2007, through June 30, 2007. This
 11 Second Report covers the period of July 1, 2007, through September 30, 2007.³

12 **I. Status of Claims Reserve Account**

13 As part of the implementation of the Plan, a reserve of \$2,149,545.00 was set aside to pay
 14 allowed administrative, secured, and priority claims against USACM, which claimants are not
 15 beneficiaries of the USACM Trust. By agreement with USACM, the USACM Trust is the entity
 16 responsible for prosecuting objections to proofs of claim asserted against USACM. The Court is
 17 directed to the USACM Trust’s quarterly report filed on October 18, 2007 (Docket No. 5035), for
 18 a detailed explanation of the status of such objections. As of September 30, 2007, \$2,863.88
 19 worth of claims had been paid leaving a reserve of \$2,146,681.12 in this account. Given the
 20 recent filings of the Pension Benefit Guaranty Corporation (the “PBGC”) related to its claims
 21 (which are discussed in greater detail at section III.1.d *infra*), USACM is reviewing the amount of
 22 the reserve and may make some adjustments to the reserve claim amount as necessary.

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 24
 25 ¹ This Final Report is filed by USACM, not the USACM Trust, a separate post-confirmation entity, and therefore, only
 discloses actions taken by USACM. The USACM Trust has filed a separate status report (See Docket No. 5035).

26 ² Unless otherwise provided herein, all capitalized words and terms are defined in the confirmed Plan.

27 ³ While this Second Report officially covers only the period through September 30, 2007, USACM has included some
 28 of the developments occurring after September 30, 2007, but before the filing of this Second Report that it deemed to
 be of particular significance.

1 **II. Status of Reserve Set for Professionals' Fees Closing of USACM Estate**

2 Also as part of the implementation of the Plan, a reserve account was created to provide for
 3 the professionals' fees incurred during the closing of the USACM estate. As of September 30,
 4 2007, a total of \$353,636.11 had been paid in post-Effective Date fees leaving a balance of
 5 \$3,420,716.51 in this reserve account.

6 **III. Pending Motions, Adversary Proceedings, and/or Contested Matters**

7 As of the date of this Second Report, USACM has resolved most of the motions, contested
 8 matters, and/or adversary proceedings that were noted in the First Report.

9 1. Matters before this Court. As of the filing of the First Report, all motions,
 10 contested matters, and/or adversary proceedings before this Court involving USACM had been
 11 resolved with the exception of (A) the USACM Professionals' final fee applications, (B) a
 12 "conditional" adversary proceeding which was filed by Compass against, in relevant part, all of
 13 the Debtors on July 7, 2007, designated as Adversary Proceeding No. 07-01105 (the "Compass
 14 Proceeding"), (C) litigation brought by Compass to enforce the Confirmation Order against the so-
 15 called "Lenders Protection Group" ("LPG"), in which USACM filed a limited joinder, (D) the
 16 objections to the claims filed by the PBGC, and (E) the adversary proceeding filed by USACM
 17 against Compass designated as Adversary Proceeding No. 07-01122 (the "USACM Proceeding").

18 a. Final Fee Applications. A hearing on the USACM Professionals' Final Fee
 19 Applications was held on August 7, 2007, and all matters related to those Applications were
 20 concluded at that time. The Court granted the USACM Professionals' Fee Application by
 21 Orders dated August 15, 2007, (Docket Nos. 4505 and 4506) and August 16, 2007 (Docket
 22 No. 4570). The Court also authorized USACM to make distributions to the USACM
 23 Professionals from the Ordered Expense Reserve, which distributions have been made.
 24 Therefore, there are no remaining issues with regards to the USACM Professionals' Final
 25 Fee Applications.

26 b. Compass Proceeding. USACM still has not been served with the Complaint
 27 in the Compass Proceeding. USACM still intends to file a motion to dismiss the Compass
 28 Proceeding if, and to the extent that, such a motion is necessary to facilitate administration

1 of this case.

2 c. LPG Litigation. USACM filed a limited joinder in the motion filed by
 3 Compass to enforce the Confirmation Order against the LPG. USACM's limited joinder
 4 was based on jurisdictional grounds. In an opinion dated July 2, 2007, the Court ruled that
 5 it had jurisdiction over the motion but recommended withdrawal of the reference. The
 6 Court formally recommended that the United States District Court for the District of Nevada
 7 ("District Court") withdraw the reference on July 3, 2007 (Docket No. 4113). This
 8 proceeding is now before the District Court as Case No. 2:07-00892, and USACM is no
 9 longer involved.

10 d. Objections to the PBGC Claims. The PBGC filed amended claims 791,
 11 793, and 794 against USACM on April 23 and 25, 2007. The USACM Trust filed an
 12 objection to these claims on September 11, 2007 (Docket No. 4728), and the PBGC filed a
 13 response on November 1, 2007 (Docket No. 5213). The hearing on this objection is
 14 currently scheduled for December 14, 2007. USACM has the obligation to see that these
 15 claims, to the extent that they are allowed, are paid even if USACM is dissolved under
 16 Nevada law (*see* section V, *infra*), and, therefore, it holds claimed amounts in its claim
 17 reserve account for payment.

18 e. USACM Proceeding. On August 7, 2007, USACM filed a complaint
 19 against Compass seeking payment of fees related to USACM's post-Effective Date services
 20 performed under the Subservicing Agreement between USACM and Compass. USACM
 21 and Compass were able to settle this dispute and the Court entered an Order on November 6,
 22 2007, approving the parties' stipulation to dismiss the Complaint. This matter is now
 23 resolved.

24 2. Matters before the District Court. As of the filing of the First Report, USACM was
 25 also involved in two proceedings before the District Court. These proceedings were (A) the
 26 appeal of the Confirmation Order filed by Debt Acquisition Company of America V, LLC
 27 ("DACA"), and (B) the appeal of the Confirmation Order filed by the LPG and the so-called Jones
 28 Vargas Direct Lenders.

a. DACA Appeal. DACA filed an appeal from the Confirmation Order, which was ultimately designated as District Court No. 07-00160 (the “DACA Appeal”). USACM filed two motions to dismiss this appeal and fully briefed the appeal. On August 29, 2007, the District Court issued its opinion granting the Debtors’ motions to dismiss the DACA Appeal and affirming the Confirmation Order on the merits. On September 27, 2007, DACA filed its notice of appeal to the Ninth Circuit. This appeal is currently pending before the Ninth Circuit as Case No. 07-16796. Consistent with its obligations under the Plan and Nevada dissolution statutes (*see* section VI *infra*), USACM will continue its efforts to oppose all actions by DACA to overturn the Confirmation Order.

b. LPG/Jones Vargas Appeal. The LPG and the Jones Vargas Direct Lenders also filed an appeal from the Confirmation Order, which was ultimately designated as District Court No. 07-00072 (the “LPG/Jones Vargas Appeal”). As with the DACA Appeal, USACM filed two motions to dismiss the appeal and fully briefed the appeal. On August 29, 2007, the District Court issued its opinion granting the Debtors’ motions to dismiss the LPG/Jones Vargas Appeal and affirming the Confirmation Order on the merits. Neither the LPG nor the Jones Vargas Direct Lenders appealed this decision.

19 3. Administrative Proceeding. On May 2, 2007, the Nevada Mortgage Lending
20 Division (“NMLD”) revoked USACM’s mortgage broker license based on alleged violations of
21 Nevada law. As these alleged violations possibly expose USACM to civil liability, USACM filed
22 an appeal of the NMLD’s determination. This matter is ongoing and USACM plans to take all
23 appropriate action in order to resolve it including, potentially, action in the Bankruptcy Court.

24 || IV. Status of Purchase Price Adjustment Escrow Account

25 As part of the sale of certain of USACM's assets to Compass, escrow accounts were
26 established to facilitate a later determination regarding purchase price adjustments alleged by
27 Compass. A determination on the extent of these adjustments has not been made and this dispute
28 continues. The USACM Trust recently indicated its willingness to pursue this issue and USACM

1 has agreed to this proposal. Thus, the USACM Trust will now be responsible for the resolution of
 2 these issues.

3 **V. Status of Pre-Paid Principal Reserve**

4 USACM continues to hold approximately \$5,000,000 related to disputes between DTDF
 5 and the USACM Trust over pre-paid principal and interest. DTDF and the USACM Trust have
 6 made some efforts to resolve these disputes, but have been unable to reach an agreement.

7 **VI. Dissolution of USACM**

8 USACM is preparing to file dissolution papers with the Nevada Secretary of State. Under
 9 Nevada law, the formal dissolution of USACM does not mean that USACM ceases to exist and all
 10 its operations end. Rather, the entity:

11 continues as a body corporate for the purpose of prosecuting and defending suits, actions,
 12 proceedings and claims of any kind or character by or against it, and of enabling it gradually
 13 to settle and close its business, to collect and discharge its obligations, to dispose of and
 14 convey its property, and to distribute its assets, but not for the purpose of continuing the
 15 business for which it was established.

16 Nev. Rev. Stat. Ann. § 78.585 (2007). Furthermore, upon dissolution, Thomas Allison, as the
 17 court-appointed officer of USACM, will become a trustee of the entity “with full power to settle
 18 [USACM’s] affairs.” Nev. Rev. Stat. Ann. § 78.590 (2007); *see also* § 78.622(1) (any action
 19 required to be taken by director may also be taken by court appointed officer if corporation is

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1 under federal bankruptcy reorganization). Consequently, even though USACM will shortly file
2 dissolution papers, it will continue as a corporate entity in order to wind-up its affairs and fully
3 implement the Plan – including the payment of claims and the resolution of the DACA appeal –
4 which actions will be overseen by Mr. Allison as its trustee.

5 Respectfully submitted this 8th day of November, 2007.

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7

/s/ Lenard E. Schwartzer, Esq.

8 Lenard E. Schwartzer, Nevada Bar No. 0399
9 Jeanette E. McPherson, Nevada Bar No. 5423
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12 Las Vegas, Nevada 89146

13 and

14 Annette W. Jarvis, Utah Bar No. 1649
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19 Salt Lake City, Utah 84145-0385

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